

**REPORT OF THE AUDIT OF THE
UNION COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE UNION COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Union County Fiscal Court for fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Union County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Union County's major program, Community Development Block Grant Program, for the year ended June 30, 2004.

Financial Condition:

The fiscal court had net assets of \$32,429,717 as of June 30, 2004. The fiscal court had unrestricted net assets of \$4,985,946 in its governmental activities as of June 30, 2004, with total net assets of \$32,413,511. In its enterprise fund, total net cash and cash equivalents were \$16,206 with total net assets of \$16,206. The fiscal court had total debt principal as of June 30, 2004 of \$2,259,457 with \$488,181 due within the next year.

Report Comment:

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry Joe Jenkins, Union County Judge/Executive
Members of the Union County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Union County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Union County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable Larry Joe Jenkins, Union County Judge/Executive
Members of the Union County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Union County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2004 on our consideration of Union County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 16, 2004

UNION COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Larry Joe Jenkins	County Judge/Executive
Bobby Veatch	Magistrate
Jerri Floyd	Magistrate
Dennis Dossett	Magistrate
Joe Wells	Magistrate
Joe Clements	Magistrate

Other Elected Officials:

Brucie Moore	County Attorney
James M. Girten	Jailer
Billy Steve Peak	County Clerk
Sue Beaven	Circuit Court Clerk
Mike Thompson	Sheriff
Ben Waller	Property Valuation Administrator
Stephen Shouse	Coroner

Appointed Personnel:

Lissa Braddock	County Treasurer
Vicki O'Nan	Finance Officer

Union County Judge/Executive

(270) 389-1081

P.O. BOX 60 - MORGANFIELD, KENTUCKY 42437-0060

FAX (270) 389-0406

Larry Joe Jenkins
Judge/Executive



Management's Discussion and Analysis June 30, 2004

The financial management of Union County, Kentucky offers readers of Union County's financial statements this narrative overview and analysis of the financial activities of Union County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Union County had net assets of \$32,429,717 as of June 30, 2004. The fiscal court had unrestricted net assets of \$4,985,946 in the governmental funds as of June 30, 2004, with total net assets of \$32,413,511. In its enterprise fund, cash and cash equivalents were \$16,206 with total assets of \$16,206. Total debt for governmental funds principal as of June 30, 2004 was \$2,259,457 with \$488,181 due within one year.
- The governmental fund's total net assets decreased by \$1,136,930 from the prior year. This decrease is primarily due to changes in governmental accounting practices.
- At the close of the current fiscal year, Union County governmental funds reported current assets of \$5,041,095. Of this amount \$4,985,946 is available for spending at the government's discretion (unreserved fund balance).
- Union County's total indebtedness at the close of fiscal year June 30, 2004 was \$2,259,457, of which \$1,771,276 is long-term debt (due after 1 year) and \$488,181 is short-term debt (to be paid within 1 year). Debt additions were \$80,000 for a new sprinkler system, and debt reductions were \$394,154 for a total net decrease of \$314,154.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Union County's basic financial statements. Union County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Union County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Union County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Union County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Union County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Union County's governmental activities include general government, protection to persons and property, roads, recreation and culture, general health and sanitation, bus services, social services, other transportation facilities and services, debt service, and capital projects. Union County has one business type activity - the Jail Canteen Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Union County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Union County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Union County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds. (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Union County maintains (7) seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- Local Government Economic Assistance Fund

Non-major Funds:

- Grant Fund
- Federal Grant Fund
- Debt Service Fund

Union County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Fund. The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Jail Canteen Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Union County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1
Union County's Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and other assets	6,555,339	5,041,095	15,599	16,206	6,570,938	5,057,301
Capital infrastructure assets	29,568,713	29,631,873	0	0	29,568,713	29,631,873
Total Assets	36,124,052	34,672,968	15,599	16,206	36,139,651	34,689,174
Liabilities						
Current and other liabilities	390,945	488,181	0	0	390,945	488,181
Long-term liabilities	2,182,666	1,771,276	0	0	2,182,666	1,771,276
Total Liabilities	2,573,611	2,259,457	0	0	2,573,611	2,259,457
Net Assets						
Invested in capital assets, net of related debt	26,995,102	27,372,416	0	0	26,995,102	27,372,416
Restricted	5,545	55,149	0	0	5,545	55,149
Unrestricted	6,549,794	4,985,946	15,599	16,206	6,565,393	5,002,152
Total Net Assets	33,550,441	32,413,511	15,599	16,206	33,566,040	32,429,717

Changes in Net Assets.

Governmental Activities. Union County's net assets decreased by \$1,136,930 in fiscal year 2004. The key element in that decrease was the increase in depreciation expenses.

Business-type Activities. Union County's net assets increased by \$607.

Financial Analysis of the County's Funds.

As noted earlier, Union County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Union County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Union County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds. (Continued)

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$5,041,095. Approximately 98% (\$4,985,946) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance of \$55,149 is reserved to indicate that it is not available for new spending because it is committed for debt service and grant projects.

The General Fund is the chief operating fund of Union County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$133,217. The County received \$755,458 in real and personal property, motor vehicle, and other taxes for approximately 50% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 50% of revenues.

The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. Expenditures for fiscal year ended June 30, 2004 totaled \$1,521,082.

The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund's main source of revenue was from housing of prisoners. The General Fund contributed \$510,000 to the jail operations.

The Local Government Economic Assistance Fund's primary source of revenue comes from coal severance and mineral taxes. It had an ending balance of \$505,711.

The Grant Fund is primarily made up of flow-through money for grants such as Ambulance Service Grants where funding is from the state. The ending balance was \$11,189.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Union County's proprietary fund is the Jail Canteen Fund. The Jail Canteen Fund's total cash balance was \$16,206.

General Fund Budgetary Highlights.

Union County's budget was amended during the fiscal year increasing the budgeted amount by \$1,601,000. Budget amendments were made to various expenditures due to grants awarded, monies provided for projects and excess prior year monies.

Capital Assets and Debt Administration.

Capital Assets. Union County's investment in capital assets for its government and business type activities as of June 30, 2004, amount to \$29,631,873 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, and construction in progress for senior citizens building. Union County has elected to report infrastructure assets in accordance with GASB 34 provisions.

Additional information about the County's capital assets can be found in Note 3 of this report.

**Union County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Debt Administration. (Continued)

Capital Assets (Continued)

**Table 2
Union County's Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Infrastructure Assets	23,607,388	22,843,429	0	0	23,607,388	22,843,429
Land	386,375	1,321,153	0	0	386,375	1,321,153
Other Equipment	26,404	74,354	0	0	26,404	74,354
Bldgs. & Improvements	4,793,790	4,703,573	0	0	4,793,790	4,703,573
Vehicles & Equip.	754,756	689,364	0	0	754,756	689,364
Total Net Capital Assets	29,568,713	29,631,873	0	0	29,568,713	29,631,873

Long-Term Debt. At the end of the 2004 fiscal year, Union County had total bonded debt outstanding of \$2,259,457 from General Obligation Bonds and financing obligations principal payments.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- The cost of housing prisoners and their medical bills will have a negative impact on funding for our detention center.
- The rapid growth of the cost of solid waste to the County is becoming a big expense in the County's operating budget.

Requests For Information.

This financial report is designed to provide a general overview of Union County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Union County Treasurer, P O Box 60, Morganfield, Kentucky 42437.

UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

UNION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,041,095	\$ 16,206	\$ 5,057,301
Total Current Assets	<u>5,041,095</u>	<u>16,206</u>	<u>5,057,301</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	934,778		934,778
Land and Land Improvements	386,375		386,375
Buildings	4,703,573		4,703,573
Other Equipment	74,354		74,354
Vehicles and Equipment	689,364		689,364
Infrastructure Assets - Net of Depreciation	<u>22,843,429</u>		<u>22,843,429</u>
Total Noncurrent Assets	<u>29,631,873</u>		<u>29,631,873</u>
Total Assets	<u>34,672,968</u>	<u>16,206</u>	<u>34,689,174</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	110,000		110,000
Financing Obligations Payable	<u>378,181</u>		<u>378,181</u>
Due Within One Year	<u>488,181</u>		<u>488,181</u>
Noncurrent Liabilities:			
Bonds Payable	1,415,000		1,415,000
Financing Obligations Payable	<u>356,276</u>		<u>356,276</u>
Due In More Than One Year	<u>1,771,276</u>		<u>1,771,276</u>
Total Liabilities	<u>2,259,457</u>		<u>2,259,457</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	27,372,416		27,372,416
Restricted For:			
Debt Service	30,083		30,083
Grant Projects	<u>25,066</u>		<u>25,066</u>
Unrestricted	<u>4,985,946</u>	<u>16,206</u>	<u>5,002,152</u>
Total Net Assets	<u>\$ 32,413,511</u>	<u>\$ 16,206</u>	<u>\$ 32,429,717</u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,804,844	\$ 19,465	\$ 222,670	\$
Protection to Persons and Property	779,623	126,084	132,229	
General Health and Sanitation	385,866	87,770	125,500	
Social Services	148,460		28,750	
Recreation and Culture	695,707	75,042		640,000
Roads	2,191,237		1,430,072	
Bus Services	68,625		68,625	
Interest on Long-term Debt	818			
Capital Projects	69,496			800,649
Total Governmental Activities	6,144,676	308,361	2,007,846	1,440,649
Business-type Activities:				
Jail Canteen Fund	20,196	20,803		
Total Business-type Activities	20,196	20,803		
Total Primary Government	\$ 6,164,872	\$ 329,164	\$ 2,007,846	\$ 1,440,649

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Reimbursement

Donation

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,562,709)	\$	\$ (1,562,709)
(521,310)		(521,310)
(172,596)		(172,596)
(119,710)		(119,710)
19,335		19,335
(761,165)		(761,165)
(818)		(818)
731,153		731,153
(2,387,820)		(2,387,820)
	607	607
	607	607
(2,387,820)	607	(2,387,213)
355,136		355,136
133,174		133,174
96,543		96,543
226,506		226,506
191,984		191,984
31,389		31,389
67,962		67,962
71,611		71,611
76,585		76,585
1,250,890		1,250,890
(1,136,930)	607	(1,136,323)
33,550,441	15,599	33,566,040
\$ 32,413,511	\$ 16,206	\$ 32,429,717

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund	Non- Major Funds
ASSETS					
Cash and Cash Equivalents	\$ 238,068	\$ 4,165,247	\$ 90,797	\$ 505,711	\$ 41,272
Total Assets	<u>\$ 238,068</u>	<u>\$ 4,165,247</u>	<u>\$ 90,797</u>	<u>\$ 505,711</u>	<u>\$ 41,272</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 79,785	\$ 14,392	\$ 20,808	\$ 59,593	\$
Grant Projects	25,066				
Unreserved:					
General Fund Type	133,217				
Special Revenue Fund Types		4,150,855	69,989	446,118	11,189
Debt Service Fund Type					30,083
Total Fund Balances	<u>238,068</u>	<u>4,165,247</u>	<u>90,797</u>	<u>505,711</u>	<u>41,272</u>
Total Liabilities and Fund Balances	<u>\$ 238,068</u>	<u>\$ 4,165,247</u>	<u>\$ 90,797</u>	<u>\$ 505,711</u>	<u>\$ 41,272</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Total Governmental Funds
<hr/>
\$ 5,041,095
<hr/>
\$ 5,041,095
<hr/>

\$ 174,578
25,066
133,217
4,678,151
30,083
<hr/>
5,041,095
<hr/>
\$ 5,041,095
<hr/>

Reconciliation of the Balance Sheet -Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 5,041,095
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	49,758,514
Accumulated Depreciation	(20,126,641)
Liabilities:	
Due Within One Year - Bonds, Notes, and Lease Principal Payments	(488,181)
Due In More Than One Year - Bonds, Notes, and Lease Principal Payments	<u>(1,771,276)</u>
Net Assets Of Governmental Activities	<u>\$ 32,413,511</u>

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UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 742,255	\$	\$	
In Lieu Tax Payments	13,203	55,799		
Excess Fees	191,984			
Licenses and Permits	7,408			
Intergovernmental	437,133	866,640	134,401	1,470,129
Charges for Services	8,958		44,243	151,170
Miscellaneous	75,827	11,086	12,989	114,359
Interest	13,132	55,752	85	7,610
Total Revenues	<u>1,489,900</u>	<u>989,277</u>	<u>191,718</u>	<u>1,743,268</u>
EXPENDITURES				
General Government	639,535			279,638
Protection to Persons and Property	40,321		531,351	222,997
General Health and Sanitation	217,553			168,313
Social Services	5,125			585,108
Recreation and Culture	309,347			366,984
Roads		1,392,223		
Bus Services				68,625
Debt Service	245,480			
Capital Projects		1,281		68,215
Administration	457,141	127,578	173,234	47,861
Total Expenditures	<u>1,914,502</u>	<u>1,521,082</u>	<u>704,585</u>	<u>1,807,741</u>
Excess (Deficiency) of Revenues Over Expenditure Before Other Financing Sources (Uses)	<u>(424,602)</u>	<u>(531,805)</u>	<u>(512,867)</u>	<u>(64,473)</u>
Other Financing Sources (Uses)				
Borrowed Money			80,000	
Transfers From Other Funds	178,243		510,000	
Transfers To Other Funds	(594,590)	(178,243)		
Total Other Financing Sources (Uses)	<u>(416,347)</u>	<u>(178,243)</u>	<u>590,000</u>	
Net Change in Fund Balances	(840,949)	(710,048)	77,133	(64,473)
Fund Balances - Beginning (Restated)	1,079,017	4,875,296	13,663	570,184
Fund Balances - Ending	<u>\$ 238,068</u>	<u>\$ 4,165,248</u>	<u>\$ 90,796</u>	<u>\$ 505,711</u>

The accompanying notes are an integral part of the financial statements.

UNION COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 742,255
	69,002
	191,984
	7,408
582,445	3,490,748
11,133	215,504
	214,261
5	76,584
<u>593,583</u>	<u>5,007,746</u>
	919,173
11,583	806,252
	385,866
	590,233
	676,331
	1,392,223
	68,625
149,492	394,972
493,005	562,501
	805,814
<u>654,080</u>	<u>6,601,990</u>
<u>(60,497)</u>	<u>(1,594,244)</u>
	80,000
84,590	772,833
	(772,833)
<u>84,590</u>	<u>80,000</u>
24,093	(1,514,244)
17,179	6,555,339
<u>\$ 41,272</u>	<u>\$ 5,041,095</u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (1,514,244)
--	----------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,504,477
Depreciation Expense	(1,441,317)
Borrowed Money	(80,000)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	289,154
Bond Payments	<u>105,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (1,136,930)</u></u>
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UNION COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

UNION COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 16,206
Total Current Assets	<u>16,206</u>
Net Assets	
Unrestricted	16,206
Total Net Assets	<u><u>\$ 16,206</u></u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

UNION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 20,803
Total Operating Revenues	<u>20,803</u>
Operating Expenses	
Cost of Sales	11,212
Educational and Recreational	8,869
Miscellaneous	<u>115</u>
Total Operating Expenses	<u>20,196</u>
Operating Income	<u>607</u>
Change In Net Assets	607
Total Net Assets - Beginning	<u>15,599</u>
Total Net Assets - Ending	<u><u>\$ 16,206</u></u>

The accompanying notes are an integral part of the financial statements.

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UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

UNION COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activity - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 20,803
Cost of Sales	(11,212)
Educational and Recreational	(8,869)
Miscellaneous	(115)
Net Cash Provided By Operating Activities	<u>607</u>
Net Increase in Cash and Cash Equivalents	607
Cash and Cash Equivalents - July 1	<u>15,599</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 16,206</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 607</u>
Total Cash Provided By Operating Activities	<u><u>\$ 607</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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UNION COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and its fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Union County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Union County Elected Officials Not Part Of Union County, Kentucky

Kentucky Law provides for election of the officials below from the geographic area constituting Union County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Union County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary Funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions, and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government and Economic Assistance Fund - The primary purpose of this fund is to account for general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational area user fees. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Grant Fund, Federal Grant Fund, and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Grant Fund, and Federal Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Debt Service Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

For the purpose of the statement of cash flows, the government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	50
Buildings and Building Improvements	\$ 25,000	50
Machinery and Equipment	\$ 10,000	15
Vehicles	\$ 10,000	5
Infrastructure	\$ 10,000	30

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Debt Service Fund was not budgeted since bond payments were budgeted in the general fund.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Union County Fiscal Court:

West Kentucky Regional Industrial Authority

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the West Kentucky Regional Industrial Authority (Industrial Authority). The Industrial Authority is a joint venture between the Fiscal Court and Union, Webster, and McLean County Fiscal Courts. Upon dissolution of the Industrial Authority, assets will be returned to the participating Fiscal Courts on a pro-rata basis.

North Pennyriple E-911 Fund

The Union County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the North Pennyriple E-911. The North Pennyriple E-911 is a joint venture between the Fiscal Court, the Kentucky State Police, Lyon, Caldwell, Crittenden, and Livingston County Fiscal Courts. This fund was created to distribute E-911 taxes collected on phone services for the aforementioned counties and the Kentucky State Police and to pay related E-911 expenses.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, however, as of June 30, 2004, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$238,209 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2004.

	<u>Bank Balance</u>
FDIC Insured.	\$ 500,000
Collateralized with securities held by pledging institution in the County's name.	4,134,485
Repurchase agreements not required to be insured.	315,252
Uncollateralized and uninsured.	<u>238,209</u>
Total	<u>\$ 5,187,946</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 386,375	\$	\$	\$ 386,375
Construction In Progress		934,778		934,778
Total Capital Assets Not Being Depreciated	386,375	934,778		1,321,153
Capital Assets, Being Depreciated:				
Buildings	5,767,417			5,767,417
Other Equipment	50,776	59,653		110,429
Vehicles and Equipment	2,526,898	82,358		2,609,256
Infrastructure	39,522,571	427,688		39,950,259
Total Capital Assets Being Depreciated	47,867,662	569,699		48,437,361
Less Accumulated Depreciation For:				
Buildings	(973,627)	(90,217)		(1,063,844)
Other Equipment	(24,372)	(11,703)		(36,075)
Vehicles and Equipment	(1,772,142)	(147,750)		(1,919,892)
Infrastructure	(15,915,183)	(1,191,647)		(17,106,830)
Total Accumulated Depreciation	(18,685,324)	(1,441,317)		(20,126,641)
Total Capital Assets, Being Depreciated, Net	29,182,338	(871,618)		28,310,720
Governmental Activities Capital Assets, Net	\$ 29,568,713	\$ 63,160	\$ 0	\$ 29,631,873

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 79,857
Protection to Persons and Property	56,265
Recreation and Culture	19,376
Roads, Including Depreciation of General Infrastructure Assets	1,285,819
Total Depreciation Expense - Governmental Activities	<u>\$ 1,441,317</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt

A. General Obligation Refunding Bonds, Series 2003

On March 19, 2003, the Union County Fiscal Court issued General Obligation Refunding Bonds, Series 2003 in the amount of \$1,630,000. The bonds were dated February 1, 2003, payable semi-annually on March 1 and September 1, beginning September 1, 2003. The interest rate on the bonds ranges from 1.00% to 3.70%. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning February 1, 2003 through February 1, 2015. The bonds are subject to early redemption prior to maturity. Principal outstanding as of June 30, 2004 was \$1,525,000. Future debt service requirement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 110,000	\$ 39,871
2006	110,000	38,551
2007	120,000	36,904
2008	125,000	34,694
2009	125,000	32,038
2010-2014	720,000	100,891
2015-2016	215,000	6,120
Totals	<u>\$ 1,525,000</u>	<u>\$ 289,069</u>

B. Series 1995 First Mortgage Bonds Defeasance

On March 1, 1995, the Union County Public Properties Corporation issued Series 1995 First Mortgage Revenue Bonds in the amount of \$2,040,000, for the purpose of funding the construction of a new courthouse annex building.

On March 19, 2003 the Union County Fiscal Court deposited \$1,760,000 in the custody of the escrow agent, Old National Trust for the defeasance of the Series 1995 First Mortgage Revenue Bonds. This amount has been determined to meet all bond and interest requirements maturing on and after July 1, 2003 to and including September 1, 2005. Principal outstanding as of June 30, 2004 was \$1,500,000.

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 1,630,000	\$	\$ 105,000	\$ 1,525,000	\$ 110,000
Financing Obligations	943,611	80,000	289,154	734,457	378,181
Governmental Activities					
Long-term Liabilities	<u>\$ 2,573,611</u>	<u>\$ 80,000</u>	<u>\$ 394,154</u>	<u>\$ 2,259,457</u>	<u>\$ 488,181</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Short-term Debt

In July 2003, the County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,193,500, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$346.

Note 6. Financing Obligations

A. Health Department Building

On November 18, 1997, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the addition and renovation of the County Health Department. The lease principal was \$160,000. The interest rate is variable. The termination date of the lease is January 20, 2006. The Union County Health Department is currently making the lease payments. Principal outstanding as of June 30, 2004 was \$46,000. Future debt service requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 22,000	\$ 2,072
2006	24,000	788
Totals	<u>\$ 46,000</u>	<u>\$ 2,860</u>

B. Courthouse Renovation

On August 14, 2001, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the renovation of the Union County Courthouse. The lease principal amount was \$1,335,700. The interest rate is variable. The Administrative Office of the Courts (AOC) makes payment on behalf of the Union County Fiscal Court. The lease termination date is August 20, 2006. Principal outstanding as of June 30, 2004 was \$608,457. Future debt service requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 276,181	\$ 12,919
2006	284,132	5,641
2007	48,144	210
Totals	<u>\$ 608,457</u>	<u>\$ 18,770</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Financing Obligations (Continued)

C. Jail Renovation

On April 30, 2004, the Union County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust program for the purpose of financing the renovation of the Union County Jail. The lease principal amount was \$80,000. The interest rate is variable. The lease termination date is November 20, 2005. Principal outstanding as of June 30, 2004 was \$80,000. Future debt service requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 80,000	\$ 3,773
Totals	\$ 80,000	\$ 3,773

Note 7. Commitments and Contingencies

A. Ambulance Service Contract

Union County is currently operating under a lease agreement with the Union County Methodist Hospital regarding ambulance service for Union County including garage facilities. The contract states the County is liable for monthly deficits of the ambulance service. The contract provides no maximum expense for which the County is liable. During fiscal year ended June 30, 2004, the County paid \$37,377 to the Union County Methodist Hospital for ambulance support. The County also paid \$21,538 directly to vendors for program support of the ambulance service.

B. Solid Waste Interlocal Agreement

In response to KRS 224.830 and reducing solid waste stream at municipal landfills by 25%, the County of Union entered into an interlocal agreement with Henderson and Webster Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The County is responsible for 22.5% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for fiscal year ended June 30, 2004, were \$19,673.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

UNION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

Note 9. Deferred Compensation

On June 24, 1986, the Union County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report.

Note 10. Insurance

For the fiscal year ended June 30, 2004, Union County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Changes in Accounting Principles and Prior Period Adjustments

The county has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$26,995,102, due to capital assets previously not reported.

Note 12. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction to arrive at estimated historical cost.

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 642,322	\$ 682,322	\$ 742,255	\$ 59,933
In Lieu Tax Payments	25,000	25,000	13,203	(11,797)
Excess Fees	103,240	103,240	191,984	88,744
Licenses and Permits	6,750	6,750	7,408	658
Intergovernmental Revenue	670,850	670,850	437,133	(233,717)
Charges for Services	4,800	4,800	8,958	4,158
Miscellaneous	10,350	10,350	75,827	65,477
Interest	16,000	16,000	13,132	(2,868)
Total Revenues	<u>1,479,312</u>	<u>1,519,312</u>	<u>1,489,900</u>	<u>(29,412)</u>
EXPENDITURES				
General Government	704,688	696,282	639,535	56,747
Protection to Persons and Property	42,470	42,470	40,321	2,149
General Health and Sanitation	300,000	300,000	217,553	82,447
Social Services	9,700	9,700	5,125	4,575
Recreation and Culture	313,060	354,159	309,347	44,812
Debt Service	352,962	255,975	245,480	10,495
Administration	442,785	462,489	457,141	5,348
Total Expenditures	<u>2,165,665</u>	<u>2,121,075</u>	<u>1,914,502</u>	<u>206,573</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(686,353)</u>	<u>(601,763)</u>	<u>(424,602)</u>	<u>177,161</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	178,243	178,243	178,243	
Transfers To Other Funds	(675,192)	(759,782)	(594,590)	165,192
Governmental Leasing Act Receipts	11,354	11,354		(11,354)
Total Other Financing Sources (Uses)	<u>(485,595)</u>	<u>(570,185)</u>	<u>(416,347)</u>	<u>153,838</u>
Net Changes in Fund Balance	(1,171,948)	(1,171,948)	(840,949)	330,999
Fund Balance - Beginning	<u>1,171,948</u>	<u>1,171,948</u>	<u>1,079,017</u>	<u>(92,931)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 238,068</u>	<u>\$ 238,068</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu of Taxes Payments	\$ 43,000	\$ 43,000	\$ 55,799	\$ 12,799
License and Permits	900	900		(900)
Intergovernmental Revenue	709,533	709,533	866,640	157,107
Miscellaneous	650	650	11,086	10,436
Interest	30,500	30,500	55,752	25,252
Total Revenues	784,583	784,583	989,277	204,694
EXPENDITURES				
Roads	1,628,180	1,652,483	1,392,223	260,260
Capital Projects	172,000	156,774	1,281	155,493
Administration	142,500	133,423	127,578	5,845
Total Expenditures	1,942,680	1,942,680	1,521,082	421,598
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,158,097)	(1,158,097)	(531,805)	626,292
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(178,243)	(178,243)	(178,243)	
Total Other Financing Sources (Uses)	(178,243)	(178,243)	(178,243)	
Net Changes in Fund Balance	(1,336,340)	(1,336,340)	(710,048)	626,292
Fund Balance - Beginning	1,336,340	1,336,340	4,875,296	3,538,956
Fund Balance - Ending	\$ 0	\$ 0	\$ 4,165,248	\$ 4,165,248

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 94,600	\$ 94,600	\$ 134,401	\$ 39,801
Charges for Services	19,000	19,000	44,243	25,243
Miscellaneous	5,000	5,000	12,989	7,989
Interest	150	150	85	(65)
Total Revenues	118,750	118,750	191,718	72,968
EXPENDITURES				
Protection to Persons and Property	652,212	629,536	531,351	98,185
Administration	151,730	174,406	173,234	1,172
Total Expenditures	803,942	803,942	704,585	99,357
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(685,192)	(685,192)	(512,867)	172,325
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	675,192	675,192	510,000	(165,192)
Borrowed Money			80,000	80,000
Total Other Financing Sources (Uses)	675,192	675,192	590,000	(85,192)
Net Changes in Fund Balance	(10,000)	(10,000)	77,133	87,133
Fund Balance - Beginning	10,000	10,000	13,663	3,663
Fund Balance - Ending	\$ 0	\$ 0	\$ 90,796	\$ 90,796

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,341,155	\$ 2,902,155	\$ 1,470,129	\$ (1,432,026)
Charges for Services	132,000	132,000	151,170	19,170
Miscellaneous	67,000	67,000	114,359	47,359
Interest	11,100	11,100	7,610	(3,490)
Total Revenues	1,551,255	3,112,255	1,743,268	(1,368,987)
EXPENDITURES				
General Government	277,065	280,537	279,638	899
Protection to Persons and Property	366,707	421,564	222,997	198,567
General Health and Sanitation	192,474	192,474	168,313	24,161
Social Services	503,572	594,852	585,108	9,744
Recreation and Culture	491,888	492,046	366,984	125,062
Roads	156,976	156,976		156,976
Bus Services	103,000	103,000	68,625	34,375
Capital Projects		1,450,000	68,215	1,381,785
Administration	86,628	47,861	47,861	
Total Expenditures	2,178,310	3,739,310	1,807,741	1,931,569
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(627,055)	(627,055)	(64,473)	562,582
Net Changes in Fund Balances	(627,055)	(627,055)	(64,473)	562,582
Fund Balances - Beginning	627,055	627,055	570,184	(56,871)
Fund Balances - Ending	\$ 0	\$ 0	\$ 505,711	\$ 505,711

UNION COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Debt Service Fund.

The State Local Finance Officer does not require the Debt Service Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

UNION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Grant Fund	Federal Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 11,189	\$	\$ 30,083	\$ 41,272
Total Assets	<u>\$ 11,189</u>	<u>\$ 0</u>	<u>\$ 30,083</u>	<u>\$ 41,272</u>
FUND BALANCES				
Fund Balances:				
Unreserved:				
Special Revenue Fund Types	\$ 11,189	\$	\$	\$ 11,189
Debt Service Fund Type			30,083	30,083
Total Fund Balances	<u>11,189</u>		<u>30,083</u>	<u>41,272</u>
Total Liabilities and Fund Balances	<u>\$ 11,189</u>	<u>\$ 0</u>	<u>\$ 30,083</u>	<u>\$ 41,272</u>

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UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Grant Fund	Federal Grant Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$	\$ 493,005	\$ 89,440	\$ 582,445
Charges for Services	11,133			11,133
Interest	4		1	5
Total Revenues	<u>11,137</u>	<u>493,005</u>	<u>89,441</u>	<u>593,583</u>
EXPENDITURES				
Protection to Persons and Property	11,583			11,583
Debt Service			149,492	149,492
Capital Projects		493,005		493,005
Total Expenditures	<u>11,583</u>	<u>493,005</u>	<u>149,492</u>	<u>654,080</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(446)</u>		<u>(60,051)</u>	<u>(60,497)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds			84,590	84,590
Total Other Financing Sources (Uses)			<u>84,590</u>	<u>84,590</u>
Net Change in Fund Balances	(446)		24,539	24,093
Fund Balances - Beginning	11,635		5,544	17,179
Fund Balances - Ending	<u>\$ 11,189</u>	<u>\$ 0</u>	<u>\$ 30,083</u>	<u>\$ 41,272</u>

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UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky.
2. No reportable conditions relating to the internal control over financial reporting are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Union County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Union County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Union County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant- State Administered Small Cities Program- Senior Center. CFDA # 14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Union County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

Reference Number 2004-1

The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

On June 30, 2004, \$238,209 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance equals or exceeds the amount of public funds on deposit at all times. We recommend the County require depository institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Larry Joe Jenkins Response:

We will monitor this situation to prevent from happening again.

REPORTABLE CONDITIONS

None

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2004
(Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

In the prior year audit report, we reported the following comment which has not been corrected:

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral
To Protect Deposits

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

UNION COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2004

**UNION COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Governor's Office for Local Development		
Community Development Block Grants-State Administered Small Cities Program- Senior Center (CFDA # 14.228)		\$ 493,000
Community Development Block Grants-State Administered Small Cities Program- Martin Tire (CFDA # 14.228)		<u>217,553</u>
Total U.S. Department of Housing and Urban Development		710,553
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.544)		1,692
<u>U.S. Department Of Homeland Security</u>		
Passed Through State Department Of Military Affairs - State Domestic Preparedness Program (CFDA # 97.004)		<u>6,575</u>
Total Expenditures of Federal Awards		<u>\$ 718,820</u>

UNION COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2004

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Union County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Joe Jenkins, Union County Judge/Executive
Members of the Union County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Union County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 16, 2004. Union County prepares its financial statements in accordance with a basis or accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Union County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Union County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed an instance of material noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

Reference Number 2004-1

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits



Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 16, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Joe Jenkins, Union County Judge/Executive
Members of the Union County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Union County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Union County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Union County's management. Our responsibility is to express an opinion on Union County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Union County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Union County's compliance with those requirements.

In our opinion, Union County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Union County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Union County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 16, 2004

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

UNION COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**


CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

UNION COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Union County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name

County Judge/Executive


Name

County Treasurer

